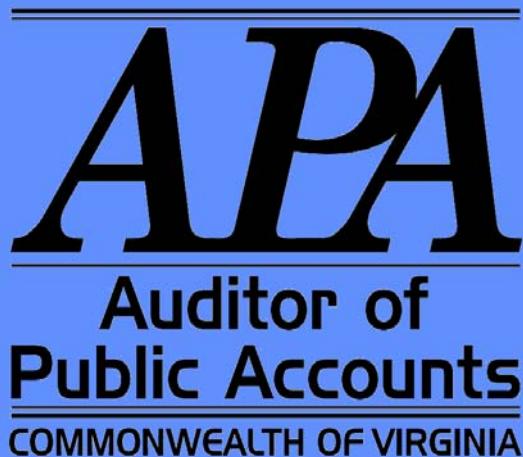


**THE GOVERNOR'S CABINET SECRETARIES**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2008**



## **AUDIT SUMMARY**

Our audit of the Governor's Cabinet Secretaries for the year ended June 30, 2008, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations that is required to be reported.

Last year, we reported several budget transparency issues primarily related to the economic development activities under the Secretary of Commerce and Trade. The Secretary's Office receives various transfers for economic development activities in accordance with the requirements in the Appropriations Act from the General Fund of the Commonwealth. The Department of Accounts transfers these amounts out of the General Fund to other funds such as the Governor's Opportunity Fund and shows these funds as non-general funds. This process makes it difficult to follow the action of the Governor and General Assembly from the approved budget to the accounting reports. This practice continued to exist in fiscal year 2008 and resulted in a loss of transparency of close to \$25 million in general funds.

We also reported on a loss of transparency at the program level when the Secretary transfers economic development funds into Administrative programs. After the transfer, the accounting system shows the disbursement of these funds as an administrative expense. This practice also affects the ability of the taxpayers to understand how the state is using its resources. Since our report, Planning and Budget has addressed the program transparency issue for the Governor's Opportunity Fund; however, transparency issues at the program level continue to exist for various other economic development activities.

We have reported similar issues in our statewide reports on the "Review of the Budget and Appropriation Processing Control System." In our most recent report, issued in April 2008, we recommended these issues be addressed as part of the Commonwealth's development of a new enterprise application to serve both as a budget development and accounting system. However, given that the status of this system development effort is uncertain, we recommend that the Governor and Planning and Budget address this issue. One obvious solution would be to segregate general funds in the current accounting and reporting system; however, Planning and Budget and the Governor should examine this issue to see if there are any other alternative reporting solutions that would address these budget transparency issues.

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## DISCUSSION OF BUDGET TRANSPARENCY ISSUES AFFECTING SECRETARIES

Through the Appropriation Act (Act) and general law, the Governor and the Department of Planning and Budget (Planning and Budget) have certain statutory authority to increase, decrease, or transfer funds and personnel positions during the fiscal year within constraints of the Act. Planning and Budget commonly refers to these budgetary changes as administrative adjustments. As part of our audit of the Cabinet Secretaries, we reviewed the administrative adjustments made during the year. Similar to our previous audit, our analysis of these adjustments highlights several budget transparency issues that primarily affect economic development activities under the Secretary of Commerce and Trade.

Budget transparency allows any informed citizen sufficient ease in understanding and following the budget process without having any special training. This term describes a budget process which is clear, visible, and understandable to a citizen with an interest in the information. We believe the following practices affect the transparency of the budget and the Governor, in conjunction with Planning and Budget and the Department of Accounts, should consider how best to address these issues.

First, significant transfers of General Funds to other funds occur after the budget's approval for various programs under the Secretary of Commerce and Trade, such as the Governor's Opportunity Fund. While the intention of the transfer is the segregation of these funds to track and monitor their activity, this practice creates a disconnect between the budgeting and accounting for these programs. These General Funds lose their identity, making it difficult to identify the source of funds for these programs in the accounting records.

There are several issues contributing to this practice; first, the legislature frequently requests separating or segregating funds as part of the budget process with the intent to isolate the accounting for certain funds. Second, Accounts has not identified any alternative mechanisms in the current accounting system which allow for separate accounting for these funds without moving them to a special revenue fund, which loses their classification as General Funds.

The other budget transparency issue is the loss of transparency at the program level when the Secretary transfers economic development funds into Administrative programs. After the transfer, the accounting system shows the disbursement of these funds as an administrative expense. This practice also affects the ability of the taxpayers to understand how the state is using its resources.

Since we initially reported this issue last year, Planning and Budget has taken some steps to correct the transparency issues at the program level for the Governor's Opportunity Fund; however, the following table details various transparency issues that remain for certain programs under the Secretaries.

<b>Description</b>	<b>2008 Amount</b>	<b>How it is recorded in the budget?</b>		<b>How it is recorded in the accounting records?</b>	
Governor's Opportunity Fund	\$750,000	General Funds	Governor's Opportunity Fund	Non-general funds	Economic Development Services
Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Fund	\$22,970,000	General Funds	Economic Development Assistance	Non-general funds	Administrative program
Virginia Investment Partnership Grant Fund	\$1,055,966	General Funds	Economic Development Assistance	Non-general funds	Economic Development Services
Participation in the Chesapeake Crescent Center	\$250,000	General Funds	Community Development Services	General Funds	Administrative program

We have reported similar issues in our statewide report on the “Review of the Budget and Appropriation Processing Control System.” In that report, issued in April 2008, we recommended these issues be addressed as part of the Commonwealth’s development of a new enterprise application to serve both as a budget development and accounting system. However, given that the status of this system development effort is uncertain, we recommend that the Governor and Planning and Budget address this issue. One obvious solution would be to segregate general funds in the current accounting and reporting system; however, Planning and Budget and the Governor should examine this issue to see if there are any other alternative reporting solutions that would address these budget transparency issues.

## AUDIT FINDING AND RECOMMENDATION

### Properly Complete Employment Eligibility Verification Forms

The Department of Support Agency Services (DSAS) is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers (M-274). The guidance requires the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three days of employment.

During our review of ten employees, we found that DSAS did not complete, sign, and date Section 2 of the I-9 form for all ten employees. These exceptions are unacceptable according to the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers (M-274).

We recommend that DSAS follow the guidance in the Handbook for Employers regarding the I-9 process, train staff on the requirements of completing I-9 forms, and develop procedures to continuously review I-9 forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes having a good I-9 process in place more important than ever before.

## FINANCIAL INFORMATION BY CABINET SECRETARY

### Introduction

The audit of the Governor's Cabinet Secretaries covers the agencies listed below. The Secretary of Administration's Division of Selected Agency Support Services provides administrative support for the Cabinet Secretaries' operations.

Secretary of Administration  
Secretary of Agriculture and Forestry  
Secretary of Commerce and Trade  
Secretary of Education  
Secretary of Finance

Secretary of Health and Human Resources  
Secretary of Natural Resources  
Secretary of Public Safety  
Secretary of Technology  
Secretary of Transportation

While most of Cabinet Secretaries receive the majority of their funding through an appropriation from the General Fund of the Commonwealth, some Secretaries also receive various special revenue funds, which we discuss in further detail throughout this report.

In fiscal year 2008, the Governor's Cabinet Secretaries received additional General Fund appropriations for salary and benefit increases as well as subsequent budget reductions in accordance with the Governor's budget reduction plans. The following table summarizes the budget and expenses for each Secretary.

### Budget and Expense Summary for Fiscal Year 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Secretary of Administration	\$ 8,021,476	\$ 7,944,638	\$7,899,022
Secretary of Agriculture and Forestry	404,696	469,067	427,830
Secretary of Commerce and Trade	837,069	823,182	795,999
Secretary of Education	712,739	775,791	759,494
Secretary of Finance	626,592	7,105,838	7,084,332
Secretary of Health and Human Resources	1,732,144	808,212	716,088
Secretary of Natural Resources	649,702	749,502	679,148
Secretary of Public Safety	736,845	775,423	673,360
Secretary of Technology	596,893	972,509	853,709
Secretary of Transportation	<u>685,500</u>	<u>769,892</u>	<u>769,863</u>
Total	<u>\$15,003,656</u>	<u>\$21,194,054</u>	<u>\$20,658,845</u>

The report has a section for each Secretary that summarizes the purpose and funding of each of the Secretaries listed in the table above. The format of the information will vary based on the Secretaries' funding sources and their responsibilities.

### Secretary of Administration

The Secretary assists the Governor with the management and direction of the administration of state government. Within the Office of the Secretary of Administration is the Division of Selected Agency Support Services. The Division provides financial and administrative support to:

Office of the Governor	Interstate Organization Contributions
Office of the Lieutenant Governor	Office for Substance Abuse Prevention
Offices of the Governor's Cabinet Secretaries	Office of Commonwealth Preparedness
Citizens Advisory Committee	Virginia-Israel Advisory Board

The Secretary's office also administers funding for the Virginia Public Broadcasting Board (VPBB). The VPBB serves as a conduit of state financial support of public radio and television stations. The Secretary's original budget includes \$350,000 to develop public service announcements to alert the citizens of the Commonwealth during times of disaster. This is a one-time appropriation and the VPBB will develop criteria for distribution of these funds.

The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for the Secretary for fiscal years 2007 and 2008.

#### Financial Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$7,671,276	\$8,021,476
Final budget	\$7,734,238	\$7,944,638
Actual expenses	\$7,669,165	\$7,899,022

#### Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$8,021,476</u>
Adjustments:	
Re-appropriation of prior year's balance	65,074
Adjustment for salary and benefit increases	95,764
Budget reductions in accordance with the Governor's plans	<u>(237,676)</u>
Total adjusted appropriations	<u>7,944,638</u>
Expenses:	
Personal services	1,087,637
Contractual services	31,777
Continuous charges	61,872
Supplies and materials	51,106
Property and equipment	1,172
Public broadcasting grants	<u>6,665,458</u>
Total expenses	<u>7,899,022</u>
Unexpended balance	<u>\$ 45,616</u>



Secretary of Agriculture and Forestry

This Secretary provides policy guidance and direction on the conservation, protection, and development of Virginia's agricultural and forest resources, as well as consumer protection. The Secretary also oversees the Virginia Department of Agriculture and Consumer Services, the Department of Forestry, and the Virginia Agricultural Council.

The Secretary receives General Fund appropriations to fund office operations. The 2007 budget included \$4.5 million for the Virginia Horse Center Foundation; similar funding was not included in the 2008 budget causing a significant decrease between the years.

Financial Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$4,904,497	\$ 404,696
Final budget	\$4,171,153	\$ 469,067
Actual expenses	\$4,144,052	\$ 427,830

Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$404,696</u>
Adjustments:	
Re-appropriation of prior year's balance	27,102
Adjustment for salary and benefit increases	<u>37,269</u>
Total adjusted appropriations	<u>469,067</u>
Expenses:	
Personal services	383,571
Contractual services	21,514
Continuous charges	22,452
Supplies and materials	<u>293</u>
Total expenses	<u>427,830</u>
Unexpended balance	<u>\$ 41,237</u>

### Secretary of Commerce and Trade

The Secretary acts on behalf of the Governor in the management and direction of commerce and trade agencies to perform program coordination, policy planning, and budget formation activities. The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the General Fund operating budget and expenses for the Secretary for fiscal years 2007 and 2008.

The final budget in 2008 includes a reduction of approximately \$88,000 due to the elimination of the Assistant Secretary position in accordance with the Governor's budget reduction plan.

#### General Fund Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$836,869	\$837,069
Final budget	\$899,249	\$823,182
Actual expenditures	\$884,066	\$795,999

#### General Fund Budget and Expenditure Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$837,069</u>
Adjustments:	
Re-appropriation of prior year's balance	15,184
Adjustment for salary and benefit increases	71,472
Transfer from Central Appropriations for developing legal strategies regarding Naval Air Station Oceana in Virginia Beach	2,857
Budget reductions in accordance with the Governor's plan	<u>(103,400)</u>
Total adjusted appropriations	<u>\$823,182</u>
Expenditures:	
Personal services	706,459
Contractual services	45,604
Supplies and materials	5,630
Continuous charges	37,115
Equipment	<u>1,191</u>
Total expenditures	<u>\$795,999</u>
Unexpended balance	<u>\$ 27,183</u>

During fiscal year 2008, the Secretary of Commerce and Trade also received various General Fund transfers from Central Appropriations for specific purposes as required by the Appropriation Act. We discuss each of these transfers in more detail below.

### Governor's Development Opportunity Fund

The Governor's Development Opportunity Fund (the Opportunity Fund) provides funds to attract economic development prospects and secure the expansion of existing industry in the Commonwealth. The Opportunity Fund receives a General Fund transfer from Central Appropriations which allow the Governor to make grants to qualifying companies. These grants are contingent on the company meeting certain criteria required under the Code of Virginia, such as the creation of a certain number of jobs.

Several entities are involved in the process of awarding grants from the Opportunity Fund including the Virginia Economic Development Partnership (VEDP), the Secretary, and the Governor. VEDP conducts the initial reviews of the proposals for grants from the Opportunity Fund and the grants are subject to approval by the Secretary and the Governor.

Once the Governor has approved a grant or loan, the company will request the funds and the Opportunity Fund will disburse the monies to the locality, who then pays the funds to the company. The company has three years within which to meet the conditions of the grant. If it does not meet the terms of the grant, the company must return the funds to the Opportunity Fund. The following table summarizes activity in the Opportunity Fund for the last three fiscal years.

#### Summary of Opportunity Fund Activity (2006 – 2008)

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning cash balance	\$25,501,452	\$25,189,015	\$36,663,703
Transfer in General Funds	9,000,000	15,100,000	750,000
Interest earned	1,089,734	1,742,188	1,587,011
Amount repaid by companies	2,730,329	2,250,000	862,000
Payments to localities/companies	<u>(13,132,500)</u>	<u>(7,617,500)</u>	<u>(12,610,000)</u>
Ending cash balance	<u>\$25,189,015</u>	<u>\$36,663,703</u>	<u>\$27,252,714</u>

Over the last several years, the Opportunity Fund has accumulated a large cash balance; as of June 30, 2008, the Fund had a cash balance of \$27.2 million. Of this balance amount, \$17 million represents funds committed to various companies but not yet paid; the remaining \$10.2 million represents legal offers made to various companies where the company has not yet accepted or finalized the offer.

The large cash balance is a result of the Commonwealth's funding approach of the Opportunity Fund, which the Code of Virginia requires. The Code of Virginia requires that the Governor cannot make future commitments unless the fund has a balance sufficient to pay them. Therefore, the Governor and the General Assembly must transfer funding into the Opportunity Fund before the Governor can make offers and commitments. Additionally, there is often a time lag of several years between when the Commonwealth makes its first commitment and when there is a requirement to make a payment.

#### *Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Fund*

The Secretary received General Funds for the Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Fund. The grants seek to encourage the manufacturing of semiconductor wafers. The fund received and spent a total of \$22,970,000 in accordance with the Appropriation Act in fiscal year 2008.

#### *Virginia Investment Partnership Grant Fund*

The Secretary received General Funds for payment to the Virginia Investment Partnership Grant Fund totaling \$1,145,000. The Virginia Investment Partnership Grant Fund awards investment performance grants in accordance with Section 2.2-5101 of the Code of Virginia. During the fiscal year, The Secretary spent over \$1,005,000 in investment performance grants.

#### *Transfer to SRI International*

The Secretary received \$12 million in General Funds for an incentive payment to SRI International to locate its East Coast Center of Excellence in the Harrisonburg area. The Governor has the authority to spend this money to provide an incentive for the location of a research-related entity along the Interstate 81 corridor.

#### *Governor's Motion Picture Opportunity Fund*

The Governor can use these funds to attract film industry production activity to the Commonwealth. The Governor awarded \$835,000 during the fiscal year.

#### *Transfer to Micron Technology Inc.*

The Secretary received \$1 million of General Funds for payment to the Virginia Microelectronics Consortium for semiconductor manufacturing education in support of Micron Technology Inc.'s major expansion.

Secretary of Education

The Secretary acts on behalf of the Governor in the management and direction of educational agencies and performs program coordination, policy planning, and budget formulation activities. The Secretary of Education receives funding primarily from General Fund appropriations. The following tables summarize the General Fund budget for fiscal years 2007 and 2008, as well as expenses for fiscal year 2008.

General Fund Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$ 712,553	\$ 712,739
Final budget	\$ 855,279	\$ 775,791
Actual expenses	\$ 746,791	\$ 759,494

General Fund Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$712,739</u>
Adjustments:	
Re-appropriation of prior year's balance	108,488
Adjustment for salary and benefit increases	59,633
Transfer to support membership in the Achieve Alignment initiatives	70,000
Budget reductions in accordance with the Governor's plan	<u>(175,069)</u>
Total adjusted appropriations	<u>775,791</u>
Expenses:	
Personal services	591,332
Contractual services	53,824
Continuous charges	40,851
Supplies and materials	2,444
Equipment	1,282
Transfer Payments	<u>69,761</u>
Total expenses	<u>759,494</u>
Unexpended balance	<u>\$ 16,297</u>

### Secretary of Finance

The Secretary acts on behalf of the Governor in the management and direction of the finance agencies and performs program coordination, policy planning, and budget formulation activities. The Secretary of Finance receives General Fund appropriations to fund office operations. The original 2008 budget increased during the year due to additional funding approved by the General Assembly for the implementation and response to recommendations of the 2005 Base Realignment and Closure Commission (BRAC).

In order to address and coordinate BRAC implementation, the 2005 General Assembly appropriated \$25 million for BRAC payments and established the Virginia National Defense Industrial Authority (VNDIA). VNDIA assists Virginia installations and communities in meeting the requirement of BRAC. The Secretary's office processes VNDIA payments to affected localities. The following tables summarize the budget and expenses for the Secretary for fiscal years 2007 and 2008.

#### Financial Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$ 626,392	\$ 626,592
Final budget	\$1,091,869	\$7,105,838
Actual expenses	\$1,038,982	\$7,084,332

#### Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$ 626,592</u>
Adjustments:	
Re-appropriation of prior year's balance	52,888
Adjustment for salary and benefit increases	53,002
Transfer from Central Appropriations for grant payments associated with the 2005 base realignment	6,418,599
Budget reductions in accordance with the Governor's plan	<u>(45,243)</u>
Total adjusted appropriations	<u>7,105,838</u>
Expenses:	
Personal services	618,816
Contractual services	14,586
Continuous charges	25,691
Supplies and materials	3,420
Transfer Payments (includes BRAC payments)	<u>6,421,819</u>
Total expenses	<u>7,084,332</u>
Unexpended balance	<u>\$ 21,506</u>

Secretary of Health and Human Resources

The Secretary acts on behalf of the Governor in the management and direction of health and human resource agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives General Fund appropriations to fund office operations. The original budget for fiscal years 2007 and 2008 includes \$1 million to fund child advocacy center initiatives. The Secretary transfers these funds to the Department of Social Services for child advocacy centers. The following tables summarize budget and expense information for fiscal years 2007 and 2008.

Financial Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$1,732,144	\$1,732,144
Final budget	\$ 736,122	\$ 808,212
Actual expenses	\$ 720,749	\$ 716,088

Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$1,732,144</u>
Adjustments:	
Re-appropriation of prior year's balance	15,374
Adjustment for salary and benefit increases	60,694
Transfer to the Department of Social Services for child advocacy centers	<u>(1,000,000)</u>
Total adjusted appropriations	<u>808,212</u>
Expenses:	
Personal services	658,618
Contractual services	14,001
Continuous charges	41,143
Supplies and materials	1,519
Equipment	<u>807</u>
Total expenses	<u>716,088</u>
Unexpended balance	<u>\$ 92,124</u>

Secretary of Natural Resources

The Secretary acts on behalf of the Governor in the management and direction of natural resource agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives General Fund appropriations to fund office operations. The original budget includes general funds totaling \$66,689 for the Council on Indians Support Services. The following tables summarize the budget and expenses for the Secretary for fiscal years 2007 and 2008.

General Fund Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$674,502	\$649,702
Final budget	\$694,990	\$749,502
Actual expenses	\$648,397	\$679,148

General Fund Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$649,702</u>
Adjustments:	
Re-appropriation of prior year's balance	46,594
Adjustment for salary and benefit increases	56,161
Budget reduction in accordance with the Governor's plan	<u>(2,955)</u>
Total adjusted appropriations	<u>749,502</u>
Expenses:	
Personal services	604,668
Contractual services	38,556
Continuous charges	33,278
Supplies and materials	1,818
Equipment	<u>828</u>
Total expenses	<u>679,148</u>
Unexpended balance	<u>\$ 70,354</u>

The Secretary also receives special revenue funds for the Chesapeake Bay Clean-Up Program. Individual taxpayers donate money by designating on their tax returns their donation to the program. The Department of Taxation collects the donations and transfers the money to the Secretary. The Secretary has the authority to transfer funds from this account when the Chesapeake Bay Local Assistance Department demonstrates a need for the funding.

Unexpended special revenue fund balance as of July 1, 2007	\$312,236
Chesapeake Bay Clean-Up special revenues	131,080
Transfers to the Chesapeake Bay Local Assistance Department	<u>(125,000)</u>
Total available resources	<u>\$318,316</u>



Secretary of Public Safety

The Secretary acts on behalf of the Governor in the management and direction of public safety agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for the Secretary for fiscal years 2007 and 2008.

Financial Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$736,645	\$736,845
Final budget	\$753,664	\$775,423
Actual expenses	\$731,858	\$673,360

Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$736,845</u>
Adjustments:	
Re-appropriation of prior year's balance	21,807
Adjustment for salary and benefit increases	59,015
Budget reduction in accordance with the Governor's plan	<u>(42,244)</u>
Total adjusted appropriations	<u>775,423</u>
Expenses:	
Personal services	607,364
Contractual services	14,220
Continuous charges	47,191
Supplies and materials	3,462
Equipment	1,089
Transfers	<u>34</u>
Total expenses	<u>673,360</u>
Unexpended balance	<u>\$102,063</u>

### Secretary of Technology

The Secretary develops, monitors, and directs the Commonwealth's technology strategy and assists in technology based innovation and economic development. The Secretary oversees two agencies: Virginia's Center for Innovative Technology and the Virginia Information Technologies Agency (VITA).

The Secretary's primary funding comes from General Funds. The Secretary's budget increased during the year due to additional funding for several initiatives. The Secretary received an additional \$250,000 from the Department of Housing and Community Development for the state's participation in the Chesapeake Crescent. The Chesapeake Crescent is a joint effort with Maryland and the District of Columbia intended to raise the prosperity of the region and increase its global competitiveness. The Secretary also received \$50,500 to continue the development of the Commonwealth's E-Health initiative and another \$50,000 to improve the Commonwealth's use of digital government. The following tables summarize the budget and expenses for the Secretary for fiscal years 2007 and 2008.

#### General Fund Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$596,479	\$596,893
Final budget	\$737,896	\$972,509
Actual expenses	\$677,744	\$853,709

#### General Fund Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$596,893</u>
Adjustments:	
Re-appropriation of prior year's balance	6,175
Transfer from Housing and Community Development for the state's contribution to participate in the Chesapeake Crescent	250,000
Adjustment for salary and benefit increases	48,532
Transfer from Department of Health to fund the Electronic Health Record Initiative	50,500
Transfers from Central Appropriations to improve the use of digital government services	50,000
Budget reduction in accordance with the Governor's plan	<u>(29,591)</u>
Total adjusted appropriations	<u>972,509</u>
Expenses:	
Personal services	529,174
Contractual services	288,942
Continuous charges	32,871
Supplies and materials	2,722
Equipment	<u>0</u>
Total expenses	<u>853,709</u>
Unexpended balance	<u>\$118,800</u>

Secretary of Transportation

The Secretary acts on behalf of the Governor in the management and direction of the transportation agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives all operating funds directly from the Transportation Trust Funds. At year-end, the Virginia Department of Transportation transfers Transportation Trust Funds equal to the Secretary's expenses. The following table summarizes the budget and expenses for the Secretary for fiscal years 2007 and 2008.

Financial Summary for Fiscal Years 2007 and 2008

	<u>2007</u>	<u>2008</u>
Original budget	\$685,500	\$685,500
Final budget	\$685,500	\$769,892
Actual expenses	\$685,476	\$769,863

Budget and Expense Analysis for Fiscal Year 2008

Original appropriations per Chapter 847	<u>\$ 685,500</u>
Adjustments:	
Additional revenue to provide for routine office operations	<u>84,392</u>
Total adjusted appropriations	<u>769,892</u>
Expenditures:	
Personal services	714,981
Contractual services	20,793
Continuous charges	32,111
Supplies and materials	1,854
Equipment	<u>124</u>
Total expenditures	<u>769,863</u>
Unexpended balance	<u>\$ 29</u>



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

October 3, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capitol  
Richmond, VA

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, VA

We have audited the financial records and operations of the **Governor's Cabinet Secretaries** for the year ended June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Secretaries' internal controls, and test compliance with applicable laws and regulations.

## Audit Scope and Methodology

The Secretaries' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenditures  
Appropriations  
Revenues

We performed audit tests to determine whether the Secretaries' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Secretaries' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that the Secretaries properly stated, in all material respects, the financial amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Secretaries record their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. We noted one matter of non-compliance with applicable laws and regulations that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation."

### Exit Conference and Report Distribution

We discussed this report with management on October 30, 2008. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LCW:



# COMMONWEALTH of VIRGINIA

Office of the Governor  
Richmond 23219

October 30, 2008

Secretary of Administration  
Division of Selected Agency  
Support Services

Mr. Walter J. Kucharski, Auditor  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Dear Mr. Kucharski:

This letter comes to you in response to the Auditor of Public Accounts finding and recommendation regarding the proper completion of Employment Eligibility Verification forms (I-9) relative to the Report on Audit for the Fiscal Year ended June 30, 2008.

The Division of Selected Agency Support Services (DSAS) respects and agrees with the finding and recommendation. After being initially notified of the finding, DSAS immediately implemented corrective measures. First and foremost, DSAS conducted an internal review of its current personnel files; concentrating on matters of I-9 compliance. Secondly, DSAS conducted a training session dedicated to reviewing the requirements of the US Citizenship and Immigration policy for Employers. Lastly, DSAS revised its new hire process to include a step requiring the Division Director to review and initial the I-9 forms.

Please contact me directly if you have any questions.

Thank you,

A handwritten signature in black ink, appearing to read "Dennis M. Johnson".

Dennis M. Johnson  
Director

## GOVERNOR'S CABINET SECRETARIES

As of June 30, 2008

Viola O. Baskerville, Secretary of Administration

Robert S. Bloxom, Secretary of Agriculture and Forestry

Patrick O. Gottschalk, Secretary of Commerce and Trade

Dr. Thomas R. Morris, Secretary of Education

Jody M. Wagner, Secretary of Finance

Marilyn B. Tavenner, Secretary of Health and Human Resources

L. Preston Bryant, Jr., Secretary of Natural Resources

John W. Marshall, Secretary of Public Safety

Aneesh P. Chopra, Secretary of Technology

Pierce Homer, Secretary of Transportation

## DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director

